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New Fuel Oil 'Superjobber' Rises in East

Why a Texan Is Building 'Phase 2' Stores

How Amoco Is Overhauling Its TBA Program

NPN

National Petroleum News

Ads Blitz Consumers

Can the Majors Get POS Going?

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NATIONAL PETROLEUM NEWS

SEPTEMBER 1986 VOL. 78 NO. 9

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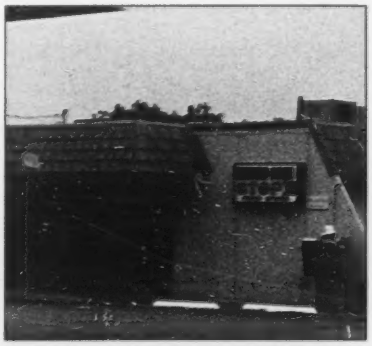
After years of cautious testing, oil marketers are now rolling out full-scale, multi-million dollar POS programs. The crucial question, as yet unanswered, is whether consumers will take the bait. **Page 42**

Over a short period of time, Champion Energy has climbed from nowhere to the lofty ranks of distillate "superjobber." Take a close-up look at Mahmoud Wahba and his remarkable company. **Page 52**



Thirteen years ago, H. Doak Neal Sr. bucked traditional wisdom and converted his dealer stations to small C-stores under direct operation. Now, Neal is well into a rebuilding program aimed at smaller towns. **Page 54**

• TRENDS

Automation at Stations "Inevitable'—Van Sickle

The automation of service stations—the so-called "ghost stations" dealer groups have eyed suspiciously and fought for several years—is the next important trend likely to overtake motor fuel marketing, says Sam Van Sickle Jr., who retired this month as senior vice president of marketing at Amoco Oil Co.

"There's no reason a station's pumps can't be open 24 hours a day," Van Sickle said. "The technology is here now for 24-hour fueling. Automation is another step toward the highest and best use of a given piece of property."

Van Sickle sees the shift toward automated fueling as "inevitable" and compared it to the rapid rise in self-service fueling from a few scattered sites in the 1950s and '60s to rapid growth in the 1970s, and its current role as the dominant method of retailing motor fuel.

"Self-serve took a long time to be fully accepted by marketers, dealers and politicians," Van Sickle said. "There were plenty of barriers to self-serve to overcome. Once we took the fear out of pumping your own 'gas,' customers accepted it and when we added the price incentive, it really took off."

Van Sickle took retirement, effective Sept. 1, after 37 years with Chicago-based Amoco. Robert J. Rauscher was named to succeed Van Sickle in the top marketing office at Amoco (*NPN*—Aug. '86, p68).

"There was no early retirement inducement," Van Sickle said of his retirement. "My family's all out on their own now and I just plan to enjoy my retirement. But, this is also the worst time to leave the industry because downstream is the most exciting part of the oil business right now."

As head of Amoco's marketing effort since 1977, Van Sickle presided over the company's shift from the controlled environment of the 1970s to the free-for-all that has characterized the 1980s.

"During controls, we went through a shakeout to get into a more manageable position," Van Sickle said. "We closed a lot of stations during that time, but it had to be done. Amoco was as well situated for the changes brought on by decontrol as anybody and in better shape than most. That paid off for us. We were trimmed down and ready to go with what the customer wanted and that was self-service.

"One thing we found out was that you couldn't just turn over a pumper to a dealer and expect him to prosper. (The dealer) needs an ancillary income source and C-stores have proven a successful way to provide it. The same can be said for car washes."

"There will always be a place for full-service," Van Sickle said. "Some areas can support full-service better than others, but we've seen a trend in some cities to attempt to legislate a minimum number of (service) bays."

Like the full service dealer in a self-service market, the small jobber, one selling 2 million gal./year or less, may be on the road to extinction, according to Van Sickle. "The small jobber is in for a difficult time in the coming years because he must have the high volume outlets just like anyone else if he wants to survive. I don't see any way to avoid a further shakeout in the jobber ranks: more buy-outs and more mergers. There's a point where the economies of scale come into play and small jobbers have to reach that point or they're not going to make it."

On the other hand, the pace of oil company mergers has slowed down considerably from the frantic pace of two years ago. "There's not that much discretionary money lying around now to allow for a big acquisition. The drop in prices has seen to that. It'll be quiet for a while. Too many companies are holding too much high-cost crude," he said.

Regarding oil company marketing, Van Sickle said that "image" has moved to the forefront of marketing efforts. "Marketing has always been the 'face' of the company," he said, adding that the face was traditionally unprofitable to maintain. "It was important the image be kept up-to-date and that was expensive. The only difference is that we're making money at it now."

Likewise, jobbers in Amoco's "town and country markets"—those not large enough to support company-direct supply—need to invest in image upgrades at their stations. "The customer doesn't know the difference between a company- or jobber-supplied station so there shouldn't be any big difference in the appearance," Van Sickle said.

—Dan Larson

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (per gal.)

JUNE	Gasoline (All types)	Leaded Regular	Unleaded Regular	Unleaded Premium
U.S. City Avg.	$ .958	$ .885	$ .955	$1.100
Regions:				
Northeast	.957	.888	.936	1.078
North Central	.962	.909	.967	1.123
South	.909	.836	.904	1.060
West	1.013	.919	1.011	1.188

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	8/1/86	8/2/85
Gasoline (total)	222,255	229,401
Gasoline (Unleaded)*	116,015	113,995
Jet Kerosine	43,139	36,327
Distillates	116,428	117,249
Residual	39,693	41,477

**Included in gasoline total.*
Source: American Petroleum Institute.

Majors Foundering Amid Price Skid, But Downstream Rides to the Rescue

Once the principal occupant of the "who cares" category of oil companies more concerned with getting rid of product than in making money on refining and marketing, downstream profits are fast becoming the darlings of the modern oil industry.

Refiners and suppliers generally netted more on their downstream operations in the second quarter and the first half than ever before in history. What it means, literally, is that downstream profits have now "come of age," in response to the turnarounds that got underway several years ago.

It used to be that the suppliers made most of their money on exploration and production, and so long as the downstream volumes kept increasing annually, that was the name of the game. Today, exploration and production have been all but devastated by the (again) biggest cutbacks the oil companies have ever known in these areas.

Percentagewise, the increases in downstream earnings in the second quarter and first half of 1986 seem utterly fantastic. They range as high as 1,458%, reflecting increases of 15 times over what they made last year. In hard money, the boom times were equally significant, however, with many reporting nets in the hundreds of millions of dollars, whereas they used to report virtually nothing.

As a matter of fact, the only "losers" in the second quarter and first half were Chevron and Standard Oil (formerly, Standard of Ohio). Chevron had a technical decrease of 27% in downstream earnings, but it was quick to point out the second quarter of 1985 contained an unusual one-time increase of $147 million, thus upsetting the normal basis for comparison. Excluding the special additions, Chevron said, would have made the earnings something like $121 million versus $19 million, or a second-quarter 1986 growth of more than 500%. Where Standard is concerned, it is going through a massive upheaval with its second billion dollar retrenchment and write-downs in its history. Standard management was taken over by BP Inc., of London, last spring.

It must be remembered, in comparing the data in the earnings table on this page, that there is a certain amount of imbalance in the way the numbers are reported. Some companies include transportation with refining and marketing; others do not. Some companies report net profits in normal fashion while others report them as pre-tax, operating profits which naturally give them a rosier value than they

Losers Dominate First Half Earnings Reports

(In millions of dollars)

Company	2nd Qtr. 1986	2nd Qtr. 1985	% Chng.	1st Half 1986	1st Half 1985	% Chng.
Exxon	$1,115.0	$745.0	49.7%	$2,825.0	$2,070.0	36.5%
Mobil	582.0	411.0	41.6	1,022.0	731.0	39.8
Chevron	216.0	347.0	(37.8)	593.0	701.0	(15.4)
Texaco	185.0	305.0	(39.3)	513.0	625.0	(17.9)
Shell	219.0	337.0	(35.0)	495.0	633.0	(21.8)
Amoco	238.0	600.0	(60.3)	569.0	1,073.0	(47.0)
Tenneco	80.0	152.0	(47.4)	204.0	98.0	108.2
Arco	150.0	(1,099.0)	—	449.0	(1,538.0)	—
Standard	(681.0)	396.0	—	(428.0)	733.0	—
Phillips	8.0	117.0	(93.2)	104.0	230.0	(62.1)
Sun	100.0	146.0	(31.5)	246.0	273.0	(9.9)
Unocal	34.6	120.4	(71.3)	108.4	301.1	(64.0)
Amer.-Hess	19.7	31.8	(38.1)	(319.6)	69.0	—
Dia. Sham.	34.5	(764.0)	—	24.5	(705.3)	—
Ashland (*)	80.2	60.3	33.0	167.7	100.4	67.0
Kerr-McGee	3.2	40.7	(92.0)	25.3	69.1	(63.0)
Pennzoil	25.2	52.6	(52.1)	9.0	110.0	(91.8)
Murphy	2.6	23.8	(89.1)	13.1	44.0	(70.2)
Petrofina	4.4	16.0	(72.5)	(35.3)	18.5	—

(*)Third quarter and nine months; fiscal ends 9/30.

Downstream Earnings Are Up—Way Up

(In millions of dollars)

Company	2nd Qtr. 1986	2nd Qtr. 1985	% Chng.	1st Half 1986	1st Half '1985	% Chng.
Exxon						
domestic	$197.0	$67.0	194%	$357.0	$80.0	346%
foreign	376.0	39.0	864	823.0	55.0	307
Mobil						
domestic	170.0	53.0	221	221.0	42.0	426
foreign	294.0	40.0	635	498.0	37.0	1,246
Chevron						
domestic	121.0	166.0	(27)	169.0	141.0	20
foreign	108.0	36.0	200	229.0	114.0	101
Texaco						
worldwide	322.0	67.0	381	623.0	40.0	1,458
Shell						
domestic	76.0	35.0	117	148.0	49.0	202
Amoco						
worldwide	173.0	99.0	75	192.0	101.0	91
Arco						
domestic	121.0	93.0	30	210.0	142.0	48
Standard						
domestic	149.0	157.0	(5.1)	154.0	203.0	(24)
Phillips (*)						
domestic	155.0	104.0	49.0	253.0	106.0	139
foreign	(5.0)	9.0	—	15.0	16.0	—
Sun						
domestic	111.0	54.0	106	179	74.0	142
Amer. Hess						
domestic						
Ashland (**)						
domestic	131.9	84.4	56	256.1	128.9	99
Kerr-McGee						
domestic	7.3	15.3	(52)	4.9	1.6	208

(*)Operating net, pre-tax; (**)Operating net, pre-tax; also, 3rd quarter and nine months; fiscal ends 9/30.

would normally have.

On the corporate side, most companies did as had been expected in the face of plummeting crude oil prices and the leveling of product prices.

Exxon and Mobil, Nos. 1 and 2 in the hierarchy of oil companies, came in with substantial increases in both the quarter and the half. Exxon had a $1.12 billion second quarter and Mobil, a bit more than half of that. Exxon's corporate earnings were buoyed by more than a half-billion dollars worth of profits in downstream operations at home and abroad. Mobil said one-time earnings boosted its second quarter and first half returns.

Phillips and Unocal, still struggling with the heavy indebtedness they had to absorb in their acquisition fights with T. Boone Pickens and his corporate financiers, also had heavy losses in the second quarter, 93% and 71% respectively, and in the first half, 62% and 64% respectively. *The Wall Street Journal*, in a recent analysis of the two companies, said the plummeting crude oil prices are having an inexorable effect on their financial structures. The article said Unocal may soon be forced to sell some of its assets. Phillips already has disposed of $1.7 billion worth to stay alive.

Tenneco had a fair second quarter which, added to its strong first quarter, gave it a first-half of $204 million, or a 100% increase. Ashland also reported significant profits but its figures are for the third quarter and nine months since its fiscal ends on Sept. 30; hence, they are not truly comparable.

Other big first half losers were Kerr-McGee, which saw corporate earnings drop 63% from year earlier figures to $25 million; Pennzoil, down 91.8% to $9 million; and Murphy Oil, down 70.2% to $13 million. NPN

API Criticizes As Flawed EPA Storage Tank Study

American Petroleum Institute, in a sharply critical analysis of the recent Environmental Protection Agency report on underground storage tanks, says—in substance—that it's hardly worth the paper it is written on.

The EPA study, released in mid-June after two years of effort, said 35% of the underground systems it inspected around the nation failed its tightness tests. It went out of its way, however, to say that this did not mean that 35% of the tanks were or are leaking. It also estimated that there were 796,000 motor-fuel storage tanks buried at 326,000 establishments, of which 322,000 were at 91,000 gasoline stations [*NPN*—Aug. '86, p29].

API politely questioned the validity of the statistics in a brief commentary right afterwards. In mid-July, however, the Institute all but dismantled the EPA report with a meticulous rebuttal that challenged the test procedures, their scope and the principal findings.

There is a difference between failing the tightness test and having actual, operational leaks, API said, explaining:

"The test procedure used in the EPA survey is often used as a preliminary screen to identify potentially leaking tank systems. EPA, however, did not use follow-up procedures to determine if the tank systems actually were leaking.

"At least three major oil company surveys of their gasoline storage tank systems revealed actual leak rates of 0.97%, 2.6% and 2.0%. Further, a survey of underground storage tank systems from the Dade County, Fla., Department of Environmental Resources Management revealed a similar leak rate. And a tank pollution liability insurance firm reveals that its records, over the past four years, indicate a 1% leak rate.

"In sum, the data from our members make it clear that the vast majority of the tanks—95% or more—are not leaking and do not represent a major threat to drinking water or property."

API also said that EPA did not use or evaluate the inventory reconciliation system that is the most widely used by gasoline suppliers and marketers. In addition, it went on, there also are a number of statistical anomalies in the EPA study—findings contrary to industry experience—that the government offered no explanation for.

The trade association said the government agency underestimated the underground tank population sadly. It did not, for example, take into consideration the considerable number of gasoline storage tanks at convenience stores. In addition, API said, if the EPA would have used its own ratio of 3.5 tanks per station and applied them to industry (and government) figures, it would have come up with more than twice the total it reported in its findings.

The study raised more problems and questions than it resolved, API said, adding: "Until these problems (with the study) have been dealt with substantively, this (EPA) survey will not be useful in helping the state governments or the federal government address the problem of underground storage tanks." NPN

Seven "Marketers" Indicted in N.Y. Tax Evasion Scheme

Seven more "marketers" have been indicted in the gasoline tax evasion scam that has hit many states around the country.

The indictments were announced jointly by New York and federal officials who said the scams netted the tax evaders $11 million in state and $5.5 million in federal taxes in a six-month period of 1984.

N.Y. State Attorney General Robert Abrams called the case "the biggest gasoline bootlegging operation ever prosecuted in the United States." All of the individuals face possible prison terms up to seven years and fines of $5,000 each.

Additionally, the chief of the Federal Organized Crime Strike Force for the Eastern District of New York, Edward McDonald, said the various individuals had ties with five organized crime families in the metropolitan area.

Abrams said the principal defendant, Sheldon Levine, 41, of Dix Hills (Long Island) N.Y., set up a "shell" corporation identified as Green Star Petroleum, which held a distributor's license in nearby Connecticut.

According to the indictment, Green Star imported 70 million gallons of gasoline in the second half of 1984, mostly by barge from New Jersey. It then sold the gasoline to distributors and wholesalers controlled by the principal defendants.

The corporations involved in the alleged conspiracy were identified by the state attorney general's office as Green Star Petroleum, No Brand Petroleum, Snug Harbor Fuel Corp., Seaplane Shuttle Transports, Lewis Petrochemical and Trading Corp., Semar Petroleum Corp., Travellers Petroleum Corp., and Montana Enterprises Corp.

The attorney general's office also supplied a listing of locations that were searched in February 1986. They included Lewis Petrochemical and Trading Corp., Brooklyn, N.Y., the alleged headquarters of the ring.

Those indicted pleaded not guilty. Bail of $500,000 was set for Levine with lesser amounts for the others. NPN

Gasoline Octane Levels Unchanged In Belated Energy Research Study

A belated report from the National Institute for Petroleum and Energy Research indicates that up through last summer, at least, no substantial changes have taken place in the octane qualities of gasolines, even though the feeling persists that suppliers are on the verge of doing something about them.

The report, a contract project in behalf of American Petroleum Institute and the U.S. Department of Energy, was published in July, roughly three to four months behind schedule. Some of the delay problems resulted from budget cutting by API and the government earlier in the year, holding up the initiation of the semi-annual study.

There has been some speculation recently that the major suppliers are about ready for an octane race of sorts. Many suppliers, since the first of the year, have reformulated their gasolines and increased the detergency levels in response to the cloggings of port valves in newer engines. (See story on Page 32.)

A number of companies also are field-testing three unleaded grades, dropping leaded regular for a mid-grade unleaded generally pegged at the 89-octane level which is where the leaded regular generally lies now. But with leaded regular demand down to 30%, its future is vanishing rapidly and in its place will probably be three unleaded grades with a secondary probability that premium octanes will move upwards a point to two points in the not-too-distant future.

The current report covers gasolines through the summer of 1985. Another of the semi-annual series is underway now covering gasolines through the winter period of 1985-1986. This should be available in the fall.

A special feature of the current study is a report on gasolines with alcohol blends. This is the first time for this category and presumably it will continue indefinitely. The current study must be considered limited, however, because the number of samples collected and analyzed were only about one-third of the number involved in the regular procedures.

The July report shows that the octane number averages of unleaded gasolines above 90 (nominally the premium grade) were 91.7 in the summer of 1985, one-tenth of a point above the preceding winter but even-stephen with the summer of 1984.

For unleaded gasolines below 90 octane (generally considered regular grade), the averages were 87.4 in the summer of 1985, the same as the previous winter, but one-tenth higher than 1984.

Leaded regular below 93 octane slipped to 88.8 from 89.1 in the winter months and 89.0 in the summer of 1984.

If octane is to be considered a quality characteristic, it would mean that the alcohol blends of leaded and unleaded regular gasolines are superior to those of the unblended grades.

The tables highlight the 1985 report, showing regional and national differences by grade and analysis methods. The research numbers reflect laboratory tests while the motor methods are generally highway tests. The equation of R plus M divided by two is the federally mandated procedure for averaging them out to an industry number. NPN

Gasoline Octanes, Regional Averages Through Summer 1985

	(R + M ÷ 2)*		
	Unleaded Gasoline		Leaded Gasoline
Regions	Below 90 Octane	Above 90 Octane	Below 93 Octane
Northeast	87.6	91.9	89.7
Mid-Atlantic Coast	87.4	92.0	89.4
Southeast	87.5	92.0	89.4
Appalachian	87.3	91.7	89.1
Michigan	87.1	91.5	89.3
North Illinois	87.1	91.3	89.3
Central Mississippi	87.4	91.5	88.9
Lower Mississippi	87.3	92.0	89.2
North Plains	87.5	91.8	88.2
Central Plains	87.7	91.0	88.1
South Plains	87.5	91.7	88.7
South Texas	87.3	92.0	89.1
South Mountain States	86.8	91.4	87.7
North Mountain States	86.4	91.7	87.3
Pacific Northwest	87.4	91.8	88.8
North California	88.2	91.6	88.9
South California	87.8	92.0	88.9
Summer 1985	87.4	91.7	88.8
Summer 1984	87.3	91.7	89.0
GASOLINES CONTAINING ALCOHOL BLENDS			
Northeast	88.5	93.3	N.S.
Mid-Atlantic Coast	87.8	91.5	90.2
Southeast	89.8	91.5	90.3
Appalachian	87.5	91.4	89.2
Michigan	89.0	N.S.	92.4
North Illinois	89.1	91.5	90.8
Central Mississippi	88.2	92.4	90.5
Lower Mississippi	88.6	91.7	90.4
North Plains	89.6	90.0	88.7
Central Plains	89.5	90.6	90.6
South Plains	88.6	90.0	90.2
South Texas	88.0	90.8	89.6
South Mountain States	88.6	93.4	89.9
North Mountain States	87.2	90.4	89.5
West Coast	N.S.	N.S.	N.S.
Summer 1985	88.6	91.4	90.2

*Research plus motor method divided by two, which is the government-mandated octane number for posting on pumps.

Source: Motor Gasolines, Summer 1985, National Institute for Petroleum and Energy Research, Bartlesville, Okla., June 1986, Published July 1986.

Pushing Debit: Will New POS Plans Make Consumers Bite?

It's late, but the debit game has just gotten hot. After years of caution and testing, oil marketers are now laying their bank cards on the table and unveiling to the public their large-scale, multi-million dollar point-of-sale (POS) programs.

The fact that millions of consumers are now being allowed into the game is surprising, since just a few months ago the rush toward a so-called "cashless society" appeared stifled by a gamut of unanswered questions.

But today, numbers show the major oil companies pushing their debit programs well past test phases and into hundreds of stations across the country.

With so many terminals in place, the next crucial question will be whether or not Americans will begin using their automatic teller machine (ATM) or "debit" cards instead of cash.

"The big question mark is consumer acceptance," said one observer.

At this point, consumer acceptance or rejection of debit could go either way. And for every observer that believes consumers will embrace debit, there's one that says otherwise.

"If consumers were knocking our doors down (for debit), we'd offer it," said a Chevron official. "But we haven't seen it."

How consumers react to debit is of major importance to gasoline marketers, who have already invested at least $7.5 million on equipment alone.

Oil companies and convenience stores selling gasoline have placed nearly 6,400 bank debit card-accepting POS terminals into retail outlets in 23 states, most of them within the last year, according to industry estimates.

While debit players stop short of proclaiming the POS movement free of the various setbacks that slowed its early momentum, they admit activity has increased.

Recent months have seen strong strides into debit by Exxon, Arco, Mobil, Circle K, Southland and most recently Diamond Shamrock, with Shell, Chevron, Texaco and Phillips capable of "moving quickly" into debit through their established network of credit authorization terminals. One major oil company says it would take as little as four months to upgrade its credit POS system to accept debit.

Other factors have recently fired up the cooling debit move, including POS agreements between MasterCard and Visa, the arrival of AT&T and other communication companies into the debit game and the release in July of new POS/debit guidelines by the American Bankers Assn.

From Gray Skies to Sunshine

The mood of the POS industry appears to have gone from gray skies to sunshine in a matter of months.

Only six months ago, movement in the debit field appeared sluggish, bogged down by high terminal costs, bank fee squabbles and weak consumer demand [*NPN*—March '86, p54].

But today, terminal manufacturers are seeing sales volumes rise, banks are striking deals and retailers are spending thousands more in advertising dollars to arouse consumer interest.

Individually, oil companies have jumped into debit in a major way: Diamond Shamrock with 500 stations, Exxon with 1,100, Mobil with 2,400 and Arco, strictly debit and no credit cards, with 500.

"Debit appears to have been reincar-

By Angel Abcede
Staff Reporter

nated," says Patricia Murphy, managing editor of *EFTA Report*.

Terminal population figures from all industries back up the renewed POS enthusiasm. The number of debit-accepting terminals on-line tripled in a year's time, reaching 17,000 in mid-June, according to a survey by industry newsletter *POS News*. Most are in gasoline stations, the rest in C-stores, supermarkets and "specialty" stores, such as shoe stores, bookshops, record stores and flower shops.

The recent surge in POS activity has also affected terminal costs. A mixture of competition, better-built equipment and higher volume have brought island terminal costs below $5,000 for the first time.

"I've seen a 20% reduction in prices in the past eight to nine months," says Edgar Petersen, vice president of sales and marketing for Diebold Inc.

Now Up to Consumers

With so many POS terminals now on-line and flashy advertising campaigns breaking, the idea of paying for gasoline or soda with the same plastic card used in ATMs has been thrust into the consumer arena. And experts say it will take a year or two to tell whether consumers will applaud or pan the payment alternative.

The theory behind why consumers would use debit is simple: convenience. Consumers using debit cards will get the cash price, and in cases like Arco, the ability to withdraw up to $40 in cash from their bank accounts. So using debit card at a gasoline station eliminates the need to carry cash, and if consumers want both a fill-up and cash from their bank accounts, it saves them from making a trip to the ATM.

This theory applies more to the cash customer rather than people who use credit. With debit, the customer's money is instantly taken from their bank accounts electronically, leaving no float time like with credit. But observers estimate 70% of consumers use cash rather than credit to pay for gas.

But while the reasons cash customers would use debit sound solid, lack of consumer demand was always seen as a big hurdle to clear.

"We still don't see a big demand for (debit)," says N.L. McHone, manager of Travel Card administration for Chevron. "And until we do, I don't see any reason for offering it. What Arco has done makes no difference."

Experts say consumers have no interest because no one has marketed the service to them. Studies by both the financial networks and oil industries show that people would use their debit cards as cash if they knew of the service.

Though debate over who should cover advertising costs have slowed the marketing of debit, strides are being made.

Interestingly, the biggest step in advertising has reportedly been made not by the oil industry, which accounts for over a third of all POS terminals, but a supermarket, which as a group account for only a little more than a tenth.

The Lucky supermarket chain in California has reportedly spent $9 million in its media blitz, enticing customers to use ATM cards to purchase groceries.

Lucky's ad campaign covered television, billboards, newspaper and radio, emphasizing the quickness and convenience of paying with debit.

Arco Rolls Out Debit Ads

Arco, while limited to the West Coast, now appears to be the biggest television and radio promoter of debit in the oil industry.

Oil companies in general have been less likely to advertise debit through traditional mass media campaigns. Exxon and Mobil normally piggyback debit promotional brochures in bank mailings to cardholders. "We did some advertising in a few markets," said a Mobil official, "but we found the (mailings) more successful."

In Arco's case, a more extensive ad campaign is planned. A 30-second television commercial and two one-minute radio spots were to break last month. The television ad will show an "obsolete" service station with a similarly obsolete cash register. As the commercial goes on, the new "PayPoint" cash register appears, backed by the slogan: "A new way to buy gasoline."

"By raising the question of how it works, we're getting people to try it," said Joe Tebo, manager of sales development for Arco.

The campaign's first radio spot will mirror the television ad, but the second will get further into the new service. It will tell how, by using their debit card, customers can withdraw up to $40 cash from their bank accounts at the PayPoint register, without having to go to an ATM.

Though more retailers are purchasing television and radio time to promote debit use, some POS experts say consumer education, not just awareness, must be raised.

"Some people still think that once they write a check, their account is debited," said one source. "They don't realize the float time involved with a check, and that a debit transaction will automatically remove that payment from their account."

Consumer education is why some observers consider mailing stuffers more effective. With mailings, the cardholders are reached and are given more detailed explanations.

"A continued commitment to promote

Mobil's agreement to accept debit cards in the New York City area opens this payment alternative to about 1 million Citibank customers.

'We are confident that the project will succeed.'

and educate the consumer is needed," said Pat McGraw of Autotank Inc. "It needs to be ongoing until debit becomes something the average consumer is aware of and can make an educated decision about."

Educating consumers through newspaper ads is an alternative Circle K has used in addition to billboards in promoting its "Quickcash" debit card program in Arizona and Texas.

The Circle K newspaper ad, featuring a businessman holding a sack of groceries and his bank cards, says, "Need a little gas, groceries or a sandwich on the run? It's yours with a flash of a Gold First Interstate Bancard or a Valley National Banking card. How about a little walking money? Just ask."

The ad concludes, ". . . in a world where time is money, 'Quickcash' can save you a little of both."

The future could see ad campaigns implementing all types of strategies and endorsements. A POS project in Dayton, Ohio, already has the backing of a famous television personality: cartoon character Mr. Magoo. The bald, nearsighted Magoo is on billboards and advertisements, with a thought bubble saying how the debit card brings him "an easier, faster, whole new way to pay."

Market research for the Dayton ad campaign concluded that people would appreciate the convenience. But research is only paper, and observers say a true measure of consumer reaction to debit can only happen in the proper atmosphere—the retail outlet.

Arco's new TV commercial emphasizes "a new way to pay" with debit.

Wide Range Needed

Not only must consumers be aware of the service, most experts agree that if consumers are going to use debit cards in large volumes, the card must be accepted at a wide range of retail establishments. These establishments include department stores, supermarkets, C-stores, fast food chains and gasoline stations, anywhere customers use cash.

To create this debit environment, business communities in 23 states have pooled resources to begin pilot programs. Many times a regional bank network will organize the effort, in which the merchants and banks initially put aside discussions of fees, just to get the project off the ground.

The goal of the effort is to measure consumer acceptance. To date, there have been 32 such pilots, many of which have expanded to become part of routine daily business.

Successful pilots have made Arizona, Texas and Florida "hotspots" for debit use.

A typical example of such a pilot program is the project in Dayton, Ohio, which began its rollout in July. The effort is organized by the regional debit card network called "Money Station" and includes 20 Bonded and Speedway (Marathon's secondary brands) gasoline stations, seven Gray Drug Stores, and eventually five Wendy's hamburger stores and two supermarkets.

The banks, merchants and even terminal manufacturers, NCR Corp. and Diebold Inc., are contributing to the six-month project that has a total budget of $900,000.

Merchants are charged $600/month per terminal location to participate in the project. The fee covers communication, advertising, installation and maintenance expenses. Merchants are also reimbursed 50% for whatever they spend in promotion.

The project will be extended if all parties agree. "If it doesn't work, we can walk away and feel that we did our best," the spokesman said. "But we are confident that it will be successful."

Although Still Voluntary, EFT Use Growing

If jobbers aren't already affected by the "fast money revolution," they may soon be. A survey of 10 major and semi-major oil companies revealed that seven companies used electronic funds transfer (EFT) with their jobbers.

Most programs run on a voluntary basis, but at least one company, Conoco, plans to make its EFT program mandatory by early next year.

In Conoco's case, payment for product is electronically pulled from a jobber's bank about 10 days after delivery. Of the companies *NPN* surveyed, Arco, Chevron, Exxon, Mobil, Shell and Texaco have similar EFT arrangements with their jobbers. Amoco, Phillips and Sunoco said they did not.

Suppliers have been moving quickly in the last few years toward EFT with their jobbers. In 1982, only 2% of jobbers purchased product through EFT; in 1985, that figure had grown to 9.2%, according to the Petroleum Marketing Education Foundation.

Mobil cited two reasons for switching its jobber payment system to EFT in January 1985. "First of all, the future of banking was heading toward EFT. Second, the paper transaction was more costly," says Chris Mouzakitis, manager of U.S. marketing credit center for Mobil.

"We went from about 30¢ with a paper-based transaction to 8¢ on electronic," he said.

For jobbers, the trend is cutting float time. In the past, jobbers often had 45 days to pay for product. In Mobil's case, jobbers now have to pay in 15 days.

The reason EFT is gaining popularity is partly cost, partly advances in technology and what is called the Automatic Clearing House (ACH).

Banks process funds electronically through ACH. With this network, banks can send and receive transactions between customer and merchant accounts. Between 80% and 90% of all U.S. banks are part of the network.

The development of ACH began in the early 1970s with regional associations cropping up and eventually expanding nationwide.

With the network in place, the trend toward replacing paper-based transactions began. Today, ACH transactions are actually cheaper than most regional financial networks.

A Major Commitment

A lot rides on consumers accepting the debit payment alternative. Oil companies that have expanded their tests have done so in a major way. The following is an overview of recent oil company debit card moves.

- Diamond Shamrock, the most recent company to announce a major POS program, said 500 Shamrock stations are now accepting the proprietary card, Visa and MasterCard credit cards and the Pulse and MPACT debit cards. The program is being offered to the company's 1,500 jobber locations as well.
- Mobil, already with the most stations accepting debit, further expanded its credit and debit card program this summer with a move into the New York metropolitan area, bringing to 2,400 the number of stations on-line in its move toward a 3,500 station goal.

Under a recent agreement, Citibank's New York area customers will be able to use their bank debit cards to purchase gasoline at any station in Mobil's 13-state market.

- Exxon now has debit card acceptors in 1,100 dealer and company-operated stations. These outlets are in Arizona, Florida, North and South Carolina, Louisiana, Texas and most recently New York and Maryland.

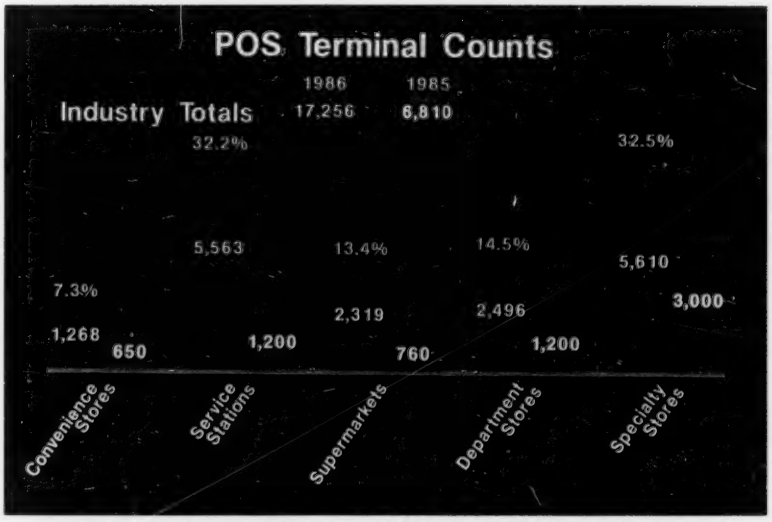
Currently, Exxon is working on a POS program for its jobbers.

- Arco announced earlier this year its acceptance of debit cards alone, no credit cards, under the "PayPoint" name in 500 stations in California and Nevada, with a goal of 600 by fall [*NPN*—May '86, p36]. In the future, Arco intends to expand its debit system into Arizona, Washington and Oregon, covering its entire market.

The program goes against the grain of most other POS programs. First, Arco installed expensive island-mounted terminals plus inside terminals, instead of cheaper card-swipe devices only in the store. Secondly, Arco, in keeping with its ground-breaking 1982 decision to "blow up" its credit card, accepts no credit cards, only debit.

In contrast, Mobil's program, for example, uses mostly in-store card-swipe terminals. And Johnathan Briggs, the manager of Mobil's POS program, said Mobil's debit program could not stand without the credit side. The time and paperwork saved on processing credit cards justifies the program, not debit by itself.

Surprisingly, Briggs sees promise in Arco's program. Since Arco only accepted cash in the first place, the convenience of not having to go into the store to pay may entice the cash-paying customers to use their debit cards, Briggs said.



In the last year, the number of POS terminals on-line tripled, with petroleum marketers leading the way. Mobil, Exxon, Arco and Diamond Shamrock have the most terminals. Source: *POS News*

Arco says it could not have made such a major debit expansion if their automated cash registers weren't already in place.

- Sunoco has 725 credit and debit-accepting terminals, with plans to go "as high as 2,500" terminals by 1988.
- Tenneco accepts debit in about 200 stations with plans to expand.
- Others, including Phillips, Shell and Amoco, are testing debit to varying degrees in different states.

Amoco completed a six-station test in Pittsburgh, Pa., with the results now being assessed. Further tests are being considered. Amoco is also conducting a three-station test in Tampa, Fla., of credit card and cash acceptors. Data capture is being tested in about 70 stations in Iowa and Florida.

Shell has a debit test at about 35 stations in Florida and has 4,400 stations linked to its POS program. Shell has been hush-hush on program and expansion details leading some observers to believe there are big plans in the works.

Phillips has about 100 stations with credit card acceptors that take the Phillips card, MasterCard, Visa and Sears' new Discover Card. Plans are for about 225 stations in all market areas. Jobbers can also participate in the Phillips program, if they are willing to pay for the equipment (ranging from $1,100 to $20,000) and a 6.48¢ transaction fee.

Chevron and Texaco both have expansive credit authorization and draft capture programs. Chevron will have 120 on the system by fall and Texaco has 700 stations on-line now.

A Ripple Effect

What the majors do will likely have a ripple effect on jobbers, as oil companies customize their own POS packages. But at the moment, jobber movement toward debit is slow. Recent figures show that only 14% of jobbers accept credit cards through POS, and only 4% accept debit cards, according to a study by the Petroleum Marketing Education Foundation.

As far as POS systems go, many more jobbers have the card and keylock type. Jobbers with POS systems made up 44% of those surveyed in 1984, say statistics in the *Petroleum Marketing Databook*. Of the 56% that didn't have a POS system, 21% planned to get some form of automated system by this year.

"Debit will grow like self-service did," says Michael Scanlon, of PMEF. "By the turn of the century, 70% of gas sales will be debit."

Scanlon believes that since banks are backing the debit move, it will eventually become a nationwide means of payment.

For jobbers interested in getting into

'Debit will spread region by region'—Circle K's Best

POS, Tom Patton, an Atlanta jobber and president of Cardlock Inc., suggests using an established POS fleet service to coordinate software and terminal hookups.

Patton, who operates 40 stations, says he invested $500,000 and tremendous personal effort in putting together a system of his own, a headache jobbers can avoid with a fleet service.

POS for jobbers is a "marginal call," Patton says. "A jobber is probably handling paper now, and if he handles a large amount of bank cards, (POS) will probably be cost effective—but not cheap."

The Debit Universe

For most jobbers, the concept of debit has been a blur of computer talk, wave-of-the-future prophecies, technical mumbo-jumbo and scattered newsbits of this oil company here doing something there.

But once the confusion has settled, and if debit does become a national form of payment, America will most likely see not a "cashless" society, but what one observer called a "less cash" society.

Dale Reistad of the Electronic Funds Transfer Assn., who has studied banking for 25 years, says people will probably look at debit as an alternative form of payment, not a replacement for cash.

"New forms of payment tend to enhance, not replace, old forms," Reistad said.

The question of whether or not debit will become a nationwide habit has been going on for, some say, as far back as the early 1970s. Since then, the promise of debit has ebbed and flowed enough to make anyone skeptical.

But over the past decade, the foundations by which debit can stand have been built, with an important cornerstone being ATMs. With ATMs in place and in common use, the transition into debit payment has been made easier.

Getting merchants to install terminals was the next hurdle, one that proved almost fatal for debit as banks and merchants squabbled about fees. While many of these differences continue, recent movement in the debit field has helped clear up the chaos.

In July, the Washington, D.C.-based American Banking Assn. released, for comment, a document of POS and debit guidelines. A symposium on the rules is scheduled for October in Chicago, to get input from "non-bank" industries.

While the rules don't address market fees, they provide standards for what a terminal should look like, the use of personal identification numbers, what the plastic debit card should be made of and other technical aspects of POS transactions.

"The document will allow banks and merchants to begin to feel comfortable in developing systems that will work in the marketplace," said Bill Petrarca, vice chairman of the ABA committee that hammered out the guidelines.

Commitments by corporations previously outside the debit arena also have stirred the POS pot. AT&T and other communication networks announced new POS transaction services. The move appears to be a symptom of increased activity in POS generally.

Other corporations include MasterCard and Visa, which announced a common debit symbol to be introduced early next year. A name has still not been decided upon, but "Entree," a MasterCard-owned trademark, is a frontrunner.

If enough banks sign up, the agreement between the two credit giants could give consumers a nationwide debit mark. The result being the ability to go to any state and pay for goods with a personal bank card.

One major oil company official says moves like the MasterCard-Visa pact make debit more and more appealing.

Along the lines of a nationwide debit mark, Sears' new Discover Card, though advertised as a credit card, also gives card holders the option of opening a savings account. Discover Card promoters say there are "no plans" to convert it into a combined credit-debit card. But the possibility exists.

As a rule, however, anything concerning debit has the ability to change quickly, especially with so many financial networks in place and processing millions of transactions at the blink of an eye.

"We have a fast-moving trend in debit," said Scanlon of PMEF, and for some jobbers this may be so. POS is already big in certain states, like Arizona, Texas and Florida. But for states like Kansas and Missouri, debit is still a foreign idea.

"Debit will spread region by region," says Anita Best, manager of Circle K's POS program.

But how debit spreads among banks and merchants is of little consequence, because consumers will have the final say.

The question of debit today remains one of consumer acceptance, ABA's Petrarca said. "If 95% of the people want (debit), it'll be of value, but if only 2% want it, you couldn't give it away. I believe that somewhere between the two extremes is reality."

But projections and theories mean little to jobbers still wondering what the "bottom line" is with all the hoopla and fast talk about fast money. Simply said, if debit does take off, as McGraw of Autotank put it, "debit will be a tool for swinging market share." NEW

Consumers in 23 states are now using debit cards, also known as ATM cards, to pay for gasoline as majors and independents alike outfit stations for POS.